Tough Times, Low Tonnes

Australian 2019/20 Winter Crop Production Outlook

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2019/20 total AU grain production forecast

27.72 m tonnes

- Wheat production: 15.84 m tonnes, down 8% YOY and 32% from five-year average
- Barley production: 7.71 m tonnes, down 7% YOY and 21% from five-year average
- Canola production: 1.83 m tonnes, down 16% YOY and 45% from five-year average

Bulk international imports of milling grains and livestock feed products will continue in 2019/20

Wheat: 15% YOY
Barley: 33% YOY
Canola: 31% YOY

52% YOY
The tough times continue

There is no sugar-coating the fact that the Australian grains industry is suffering the ongoing severe impacts of drought. The 2019/20 season will see YOY increases in some regions, and in some cases very large increases. This reflects the extent of decline last year rather than significant gains over typical production levels. The YOY increases in these regions, most notably Victoria, do not offset the significantly lower production prospects for Western Australia this year, and further decline in Queensland. As a result, Australia is facing the prospect of winter crop production being just 27.7m tonnes in 2019/20. This is down 9% YOY, 31% below the five-year average, and the smallest crop since 2007/08.

Sharing the load from east to west

Unlike 2018/19, lower grain production is also on the cards for Western Australia. A total winter crop of just 11.9m tonnes is expected in the west this year, as a result of the combined impacts of a dry start, a dry season, and a frosty September. The biggest percentage decline will be in canola, which we expect to be just 0.8m tonnes, 50% of WA’s five-year average. Increased barley plantings this year will mean that Western Australia’s barley supply remains near the five-year average.

Relocation market to continue

Despite lower YOY new crop volumes, Western Australia will continue to supply wheat and barley to the NSW and Queensland markets over the coming year. However, with lower WA supply, less livestock on the east coast, and higher south-eastern Australia grain supply in 2019/20, transhipments will be down considerably YOY. The availability of supply from WA and Canada, as well as marginally lower YOY global prices, will be additional factors that keep east coast grain prices from reaching surpassing the record levels of Q4 2018.

Improved competitiveness as dollar declines

Further depreciation of the Australian dollar over the coming 12 months, down to USc 66 by October 2020, will assist Australian grain export competitiveness. With this assistance, Australian exports should reach 8m, 3.9m, and 0.9m tonnes for wheat, barley, and canola, respectively, in 2019/20 – collectively down 15% YOY.

No quick fixes

For many parts of Australia, this is the third consecutive year of severely drought-affected production. This means that the tough times are getting tougher and the tail of the drought’s enduring impacts is getting longer. These impacts do not apply just to cash flow, but also relate to stymied expansion plans and soil- and resource management-challenges. Moreover, Australia’s reduced capacity to service international markets over multiple years will severely challenge Australia’s competitiveness in export markets when our exportable surplus grows again. This tough time for the Australian grain & oilseed sector has reached the point where a break in the drought will just be the start of a long road to recovery.

No quick fixes

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Australian winter crop production, 2013/14-2019/20f

* Victoria, NSW & Qld
Source: ABARES, Rabobank 2019
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## Acknowledgements and notes

Forecasts contained within have been developed in consultation with Rabobank rural managers across the network of Rabobank Australia's branches, internal analysis, and published sources. Average = five-year average (2014/15-2018/19, e: estimate, f: forecast)
Climate outlook
Frost, stratospheric warming, and no relief in sight

A frosty end to a warm season

Most of Australia’s cropping regions entered planting in 2019 with below-average soil moisture. Besides the exclusion of only a few regions, the season drew to a close in the same tone. The harsh reality of the seasonal conditions was ratcheted up a notch in early September when a devastating frost swept across WA, with additional frosts also affecting SA & VIC.

On the east coast, we saw favourable conditions in the very north and the very south, with southern Victoria and central QLD reaching towards average rainfall. Nearly everywhere in between struggled with rainfall close to, or at, a decade low.

The west coast saw an already challenged season hit by a blistering frost, focused on, but not restricted to, the Esperance region. Above-average temperatures before and after the events exacerbated the impact of the frost.

Sudden stratospheric warming intensifies the dry

Record-high Antarctic temperatures during August and September delivered a rare phenomenon known as ‘sudden stratospheric warming’. The last and only other such ‘sudden’ event was recorded during the 2002 Australian drought.

Although there have been weaker versions of this phenomena over the last 60 years, the Bureau of Meteorology (BOM) is forecasting the strongest stratospheric warming on record this year.

Past stratospheric warming events over the Antarctic have most strongly impacted already drought-stricken NSW and southern Queensland, with below-average spring rainfall and above-average temperatures. The current event is expected to intensify the already dry season. Notwithstanding this rare event, the strongly positive IOD remains the key influence on this outlook.

Relative root zone soil moisture, Oct 2019 vs. 1911-2016

No relief in sight – rainfall outlook, Nov 2019 - Jan 2020

Rainfall in select cropping regions, 1 March-30 September

Source: BOM, Rabobank 2019

Source: BOM, Rabobank 2019

Source: BOM, Rabobank 2019

Source: BOM, Rabobank 2019
National winter crop harvest forecast summary
The (still) low down

Australian winter crop harvested area will be 20% below average*

Where to find Australian wheat and barley in 2019/20

The west gets dragged down with the rest
- Conditions this season have proven testing, even for Australia's 2018/19 most valuable player of the year. After starting the season on limited soil moisture, the Western Australian crop progressed slowly but surely, only to be pulled back by a widespread and severe frost in early September. The east coast largely saw a re-run of the 2018/19 episode with a few exceptions. Southern VIC and central QLD both managed to buck the national trend, with cumulative rainfall and yields reaching near to five-year average levels.

Cereal prices remain elevated, but upside capped
- A continuation of difficult seasonal conditions and record feed grain demand on the east coast is expected to maintain an elevated price floor for wheat and barley, while the prospect of additional international imports of wheat from Canada, and domestically from WA and SA, will put a price ceiling on upside movement in the new season.
New South Wales
Early hope faded fast

Production upside YOY, but still 61% down on average
Despite being dragged through a third year of below-average rainfall, crop production in NSW is set to make significant YOY gains and deliver 3.7m tonnes. Although still significantly below the five-year average by 61%, this is a 31% improvement on last year's disaster. This season saw record-low soil moisture in central and northern regions at planting, a general lack of grain filling in the central west, and frost events hindering the positive benefits of rain in the south.

A multi-layered outcome for NSW
Growing conditions have been tough all across NSW but to varying degrees. In the northern regions, the crop has been left in tatters, with cumulative rainfall during the growing months of April to September in areas surrounding the Border Rivers and Namoi falling severely short of even 2018 levels. Central NSW regions have been mixed, with April to September rainfall above 2018 levels in Lachlan and below 2018 levels in the Central West. The southern NSW regions of the Murray and Murrumbidgee were the standouts with strong in-crop rainfall improvements over 2018, albeit still 27% and 16% below their respective ten-year cumulative rainfall averages.

The upside comes from livestock
- Record wool and strong sheep meat prices have increased margins for mixed farmers this season, alleviating some of the financial stress from lower yields and crop abandonment. A price dip over the last few weeks in both commodities has weighed on optimism, but prices remain strongly positioned above the five-year average.

Hay production at the expense of grain
- Many producers are weighing the biomass available to produce hay against grain yield prospects, with the decision having already been made for canola growers in a number of areas. As a result, we expect some downward pressure on hay prices given higher-than-anticipated hay supply on the cards.

<table>
<thead>
<tr>
<th>NSW forecast crop production (thousand tonnes)</th>
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<tbody>
<tr>
<td>Wheat</td>
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<tr>
<td>-------</td>
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<tr>
<td>Five-year average</td>
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<tr>
<td>2018/19e</td>
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<tr>
<td>2019/20f Rabobank</td>
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<table>
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<tr>
<th>vs. five-yr. avg.</th>
<th>▼60%</th>
<th>▼58%</th>
<th>▼67%</th>
<th>▼81%</th>
<th>▼54%</th>
<th>▼61%</th>
</tr>
</thead>
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<tr>
<td>vs. 2018/19</td>
<td>▲33%</td>
<td>▲23%</td>
<td>▲85%</td>
<td>▼3%</td>
<td>▲4%</td>
<td>▲31%</td>
</tr>
</tbody>
</table>

Source: ABARES, Rabobank 2019

NSW relative root zone soil moisture (by catchment), Oct 2019

Source: BOM, 2019
Queensland
A sea of red

Almost saved by the centre
After a year of polarizing floods and drought, the QLD crop has finished with a dry 0.5m tonnes, down over 30% from the 2018/19 season, and down an eye-watering 72% from the five-year average.

While the south finished the cropping season in the same fashion as it started – treacherously dry – central QLD managed to reach average rainfall between April and July. After entering the season with low soil moisture, the region benefited from the tail end of Cyclone Trevor in March, which set up a very promising season. Ideal conditions to the end of July were, however, followed by little to no rain across the region, curtailing the high hopes of earlier in the season.

Hay baling and area abandonment on the up
With root zone soil moisture reaching 100-year lows in parts of southern QLD, there has been a strong increase in the percentage of crop being baled for hay. In the Border Rivers region alone, we expect the proportion of crop to be baled to be upwards of 80% of the planted area. This, however, will do little for hay supply because 80% of such low-planted areas will not amount to much.

QLD relative root zone soil moisture (by catchment), Oct 2019

QLD forecast crop production (thousand tonnes)

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Barley</th>
<th>Canola</th>
<th>Pulses</th>
<th>Oats</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five-year average</td>
<td>994</td>
<td>269</td>
<td>1</td>
<td>485</td>
<td>26</td>
<td>1,775</td>
</tr>
<tr>
<td>2018/19e</td>
<td>400</td>
<td>95</td>
<td>1</td>
<td>198</td>
<td>21</td>
<td>715</td>
</tr>
<tr>
<td>2019/20f Rabobank</td>
<td>277</td>
<td>48</td>
<td>&lt;1</td>
<td>158</td>
<td>7</td>
<td>490</td>
</tr>
<tr>
<td>vs. five-yr. avg.</td>
<td>▼72%</td>
<td>▼82%</td>
<td>▼73%</td>
<td>▼67%</td>
<td>▼73%</td>
<td>▼72%</td>
</tr>
<tr>
<td>vs. 2018/19</td>
<td>▼31%</td>
<td>▼49%</td>
<td>▼77%</td>
<td>▼20%</td>
<td>▼67%</td>
<td>▼31%</td>
</tr>
</tbody>
</table>

Regional pricing
- Grain prices are expected to see continued support at current levels on the back of record feed grain demand and a small sorghum crop. Regions of the southern QLD cropping belt are in their third consecutive year of drought, and there is no relief in sight. The rainfall outlook, together with historically-low dam levels, does not even support average prospects for the upcoming summer crop, so grain prices will continue to be supported for the next 12 months.

Long-term impacts
- With many southern QLD regions experiencing one of the most severe and prolonged drought episodes on record, the landscape is at risk from a range of long-term impacts. The potential for widespread erosion and increased weed burdens when seasonal conditions do return to normal is very real. The impact of this drought on cash flows and productive capacity has many years to play out once it has broken.
South Australia
A mixed season

Living on the edge
In concert with the rest of the nation, South Australia received limited rainfall this season, with only a handful of regions ending with average yields. Areas with semi-healthy crop have been growing on a hand-to-mouth approach, with the occasional just-in-time rainfall coming to the rescue. We forecast SA production to still be down on average, but up 9% YOY at 5.8m tonnes.
The season has seen SA rainfall move marginally above 2018, except for parts of the Eyre Peninsula and the South East, which received near ten-year minimum cumulative rainfall during the year to date. The cropping regions with the best prospects this season include the southern areas of Northern and Yorke as well as Adelaide and Lofty Ranges, which, since April, experienced cumulative rainfall levels only 6% and 7.7% below their respective ten-year averages.

Father Frost leaves no rock unturned in Australia
A final blow to the season came with a chilly September frost. The severity of the damage varied across the Eyre Peninsula, Yorke and Mid North, Port Lincoln, and the Murray Darling Basin. Following these events, SA growers have been rushing to cut crop for hay as insurance against further crop damage.

SA forecast crop production (thousand tonnes)

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Barley</th>
<th>Canola</th>
<th>Pulses</th>
<th>Oats</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five-year average</td>
<td>4,283</td>
<td>2,012</td>
<td>304</td>
<td>570</td>
<td>109</td>
<td>7,278</td>
</tr>
<tr>
<td>2018/19e</td>
<td>2,950</td>
<td>1,535</td>
<td>260</td>
<td>430</td>
<td>80</td>
<td>5,255</td>
</tr>
<tr>
<td>2019/20f Rabobank</td>
<td>3,342</td>
<td>1,677</td>
<td>196</td>
<td>445</td>
<td>92</td>
<td>5,752</td>
</tr>
<tr>
<td>▼ vs. five-yr. avg.</td>
<td>▼ 22%</td>
<td>▼ 17%</td>
<td>▼ 35%</td>
<td>▼ 22%</td>
<td>▼ 16%</td>
<td>▼ 21%</td>
</tr>
<tr>
<td>▲ vs. 2018/19</td>
<td>▲ 13%</td>
<td>▲ 9%</td>
<td>▼ 25%</td>
<td>▲ 3%</td>
<td>▲ 15%</td>
<td>▲ 9%</td>
</tr>
</tbody>
</table>

Source: ABARES, Rabobank 2019

Good-looking canola prices
- A continuing non-GM canola supply squeeze in EU markets, notably German and French markets, has pushed prices higher and created a solid premium over GM canola. We expect the tight non-GM canola market to continue supporting prices over the short- and medium-term, which will benefit South Australia’s non-GM canola growers.

Pulses remain subdued
- Australia’s premier lentil-growing state can expect to face ongoing low prices for lentils. A higher supply of new Canadian crop, available stocks in Australia, and a highly-protected Indian market, together with a lack of concern (to date) for the upcoming lentil planting season in the sub-continent region, mean lentil prices will stay flat until we hear significant news of weather challenges in India.
## Victoria

### A tale of two sides

#### Strong growth YOY and back into average territory

As the winter crop winds down, Victoria emerges with a crop of 5.9m tonnes, a welcome YOY increase of 58%, and marginally above the five-year average. After an early break in the state’s largest growing regions, the season saw northern VIC retreat into dryness, followed by widespread and scattered frost.

#### Northern decline as the south blooms

As the season progressed, an increasingly noticeable divide emerged between the rain-graced south and the drying north. The southernmost growing regions of Victoria received above-average growing-season rainfall, while further north in the state’s primary growing regions of the Wimmera and Mallee, cumulative rainfall since January remained stubbornly close to the ten-year minimum. The Mallee is on track to receive approximately 65% of average rainfall this year, a disappointing finish.

#### Frost to top off the season

Several occurrences of frost made their way during flowering across the Mallee, northern central and Glenelg Hopkins cropping regions. Stem and head frost damage has been reported.

### VIC relative root zone soil moisture (by catchment), Oct 2019

![Graph showing soil moisture by catchment](graph.png)

### VIC forecast crop production (thousand tonnes)

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Barley</th>
<th>Canola</th>
<th>Pulses</th>
<th>Oats</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five-year average</td>
<td>2,949</td>
<td>1,755</td>
<td>543</td>
<td>402</td>
<td>237</td>
<td>5,886</td>
</tr>
<tr>
<td>2018/19e</td>
<td>1,950</td>
<td>1,100</td>
<td>300</td>
<td>235</td>
<td>140</td>
<td>3,725</td>
</tr>
<tr>
<td>2019/20f Rabobank</td>
<td>3,326</td>
<td>1,535</td>
<td>529</td>
<td>346</td>
<td>163</td>
<td>5,899</td>
</tr>
<tr>
<td>vs. five-yr. avg.</td>
<td>▲13%</td>
<td>▼13%</td>
<td>▼3%</td>
<td>▼14%</td>
<td>▼31%</td>
<td>▲&lt;1%</td>
</tr>
<tr>
<td>vs. 2018/19</td>
<td>▲71%</td>
<td>▲40%</td>
<td>▲76%</td>
<td>▲47%</td>
<td>▲16%</td>
<td>▲58%</td>
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</table>

Source: ABARES, Rabobank, 2019

#### The upside

- Continued Chinese demand for oats, high domestic feed-grain demand, and poor oat yields in QLD and NSW are expected to keep prices elevated into the new marketing year.

#### The downside

- Australia’s Bureau of Meteorology has forecast rainfall of between 5mm and 25mm during October for most northern regions of Victoria. Low October rainfall is likely to create further setbacks for crops in the Mallee, north central, and Goulburn regions, where already challenged crops will be further stressed during the last stretch of the growing season.
Western Australia
A frosty end to an otherwise warm story

A big blow for last year’s most valuable player

Only a year after playing the role of Australia’s breadbasket, a dry start to the season followed by a hand-to-mouth rainfall during the growing season and a devastating frost during September, have left the state’s crop hobbled at 11.9m tonnes. On a positive note, cropping regions in the Avon saw improved rainfall as the season progressed, moving from nearly the lowest cumulative rainfall in 10 years at planting, to approximately 30% above the ten-year minimum in September.

Devastating frost

Blistering frost, focused largely on the Esperance port zone during the first half of September, added a significant blow to the crop. Sub-zero temperatures (down to minus five in some places) for periods of six to eight hours, delivered widespread flower and stem frost-damage. With warm and dry weather prior to, and subsequent to, the frost, this event has wiped hundreds of thousands of tonnes from this year’s harvest.

WA relative root zone soil moisture (by catchment), Oct 2019

Source: BOM, 2019

Exporting to the east

• Despite a lower exportable surplus on the cards, we expect wheat and barley shipments to still make their way east this year. Higher YOY east coast supply, lower stock numbers, and higher international imports of grain and feed products mean that interstate transfers to the east from WA and SA will be markedly down from last year’s 3m tonnes, but still important in delivering basis support to those zones.

The downside

• With the backdrop of heightened trade and political tensions, Australia’s largest barley customer, China, has begun reorganising its supply chains to receive more grain from the EU, the Black Sea, and Argentina. With no resolution in sight and ample supply of cheap feed grain globally, we do not expect a large reboot in Australian barley sales to China.

<table>
<thead>
<tr>
<th>WA forecast crop production (thousand tonnes)</th>
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<tr>
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<tr>
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<tr>
<td>five-year average</td>
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<tr>
<td>2018/19e</td>
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<tr>
<td>2019/20f Rabobank</td>
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<tr>
<td>vs. five-yr. avg.</td>
</tr>
<tr>
<td>vs. 2018/19</td>
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</table>

Source: ABARES, Rabobank, 2019
Wheat & Barley | Domestic price outlook
Widespread dryness to support domestic price outlook

Global glut of wheat

- With record wheat production and subdued demand expected, global stocks are forecast to grow 3% YOY over the year ahead. On this basis, Rabobank forecasts CBOT wheat to remain near to, or just marginally above, USc 500/bu out to Q4 2020.
- The unrelenting east coast drought has Australian prices continuing to trade at above-average basis levels and restocking attempts thwarted by another small crop. We expect basis to hold firm, however further price gains are likely to be capped by the real risk of increased international grain imports.
- We forecast further Australian dollar depreciation to USD 0.66 by September 2020, which will improve the competitiveness of Australia’s grains globally.

Barley barely moving

- As long as China continues its anti-dump investigation of Australian barley, Australian export zones’ (SA & WA) barley prices will continue to be guided by interstate transfer parity to the east coast.
- The effect on prices of increased barley planting this year will be moderated by a significant area of barley being baled for hay and by increased area abandonment, due to drought.
- Low east coast barley stocks, plus growing concern about summer crop prospects and next year’s winter crop prospects, will encourage more storage and fewer harvest sales.
Canola & Pulses | Domestic price outlook
Trade disruptions pushing all the oilseed buttons

A non-GM diamond in the rough

- The global oilseed complex has been subdued by US-China trade tensions and reduced Chinese feed demand as a result of African swine fever throughout 2019. However, a slimming of the US soybean balance sheet, lower global supplies, Chinese purchases and an attempt at a US-China trade deal have firmed markets. Rabobank forecasts CBOT soybean prices at USc 945/bu by Q4 2020.
- Australian canola price upside should continue, due to hay cutting in southern NSW and frost in WA. This should partially offset the downward price pressure of increased Canadian canola stocks caused by Chinese import restrictions.
- Non-GM canola has seen strong price gains since July 2019. We expect ongoing price support as a 13-year-low EU canola crop and lower Australian supplies again keep the global non-GM balance sheet tight.

Selected Australian pulse prices, May 2018 – Sep 2019

Domestic canola October price outlook

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<th>2019/20</th>
<th>2020/21</th>
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Strong yields and import restrictions limit pulse upside

- Canada’s pulse harvest is well under way. Despite planted hectares of lentils being unchanged YOY, StatsCan has forecast production to be up 14% YOY, due to the highest yields in five years.
- In the face of ongoing Indian import restrictions, a favourable outlook (so far) for the subcontinent’s Rabi planting season, slowing Indian economic growth, and higher Canadian lentil yields, we cannot find reason for global lentil prices to remain anything but subdued into 2020.
- Our expectations that Australia’s lentil supply will be similar YOY (higher stocks despite lower new crop production), and still elevated, mean Australian lentil prices will have a similar outlook.
- Chickpea prices will also be subdued once local demand is satisfied, due to similar dynamics in the subcontinent and to a burdened global kabuli chickpea market.
Export outlook
Low tonnage, low exports

Losing market positioning as harvest falters… again

- With another significantly below-average crop of just 27.7m tonnes, coupled with lower stocks on both sides of the nation now, we expect limited exports again in 2019/20.
- With basis still running strong across Australia’s port zones, only the very price-inelastic export demand for Australian grain remains. Already depleted stocks on the east coast will not be replenished this season, so above-average basis will continue for the next 12 months at least.
- Exports are likely to be in the order of 8m tonnes of wheat, 3.9m tonnes of barley, and not more than 0.9m tonnes of canola.
- This year will be Australia’s third consecutive year of below-average export volumes. Increased volumes of wheat from the Black Sea region and Argentina have made up the supply shortfall, at a time when Australia’s competitiveness was already being challenged. Regaining market positioning will be increasingly difficult with every year that Australia does not have a buoyant export surplus.

Australian wheat production and exports, 2010-2020f

Global oversupply caps global wheat price upside

Good freight news

On 1 January 2020, the International Maritime Organisation (IMO) will implement a 0.5% global sulphur cap for marine fuels. This regulation is designed to reduce shipping sector emissions by 80%, however it has implications for the relative competitiveness of grains and oilseeds in export markets. This is because lower-sulphur fuels are more expensive and, therefore, make the landed costs of grains shipped from further afield more expensive. While prevailing world oil prices and ship supply-and-demand capacity will continue to be the key determinants of relative shipping costs, this regulatory change will, all else being equal, deliver increased competitiveness to Australian grains in Southeast Asia, compared to grains of other origins.
Banking for Food is Rabobank’s vision on global food security and the role of the bank. As a consequence of a growing and wealthier global population, the demand for food is expected to rise considerably. The food and agri value chains have to produce more with fewer natural resources. As a leading international food and agri bank, Rabobank aims to support and facilitate in meeting this challenge—by providing access to finance, knowledge, and networks to clients and their communities.